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FROM AMBASSADOR HUME TO U/S REUBEN JEFFERY

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SUBJECT: SCENESETTER FOR U/S JEFFERY'S SEPTEMBER 9-12 VISIT TO INDONESIA

¶1. (SBU) Embassy Jakarta welcomes you to Indonesia. Yours will be the first high-level State Department economic visit here in several years. We have structured your visit to highlight the important themes of investment climate reform, anti-corruption efforts, energy security and climate change, and U.S. engagement with ASEAN. You will also spend a day in Medan, the capital of North Sumatran province.

Investment Climate Reform

¶2. (SBU) While Indonesia's economy is growing at over six percent per year, the investment climate remains difficult. Investors complain of poor infrastructure, leaden bureaucracy, and judicial corruption. The government has a team of reform-minded technocrats (including Minister of Trade Mari Pangestu whom you will meet). But a lack of consensus between reformers and economic nationalists hobbles progress on opening up the investment climate. For example, the recently passed investment law contains a number of progressive elements on transparency and equal treatment for foreign investors. Unfortunately it also includes a negative list limiting foreign ownership in a large number of sectors. You will have the opportunity to meet with both American and Indonesians business people to get their views on doing business in Indonesia. In addition to the trade minister, you will also meet with the Coordinating Minister for the Economy and the Director of the Investment Coordinating Board.

Anti-Corruption Efforts

¶3. (SBU) Indonesia is making progress in reducing corruption. The Corruption Eradication Commission (KPK) and an associated Anti-Corruption Court (ACC) have had success over the past few years in investigating and prosecuting high-profile corruption cases. The KPK and ACC coordinate with the Attorney General's Office, the National Police, the Supreme Court and others. You will have a chance to visit the KPK to discuss the challenge that corruption issues pose to Indonesia's further development.

¶4. (SBU) Despite Indonesia's efforts, as of 2006 Indonesia's score on anti-corruption indicators remained below the minimum level for Indonesia to qualify as an MCC Compact Country. To accelerate progress, USAID and GOI signed a \$5 million agreement in November 2006 for a Millennium Challenge Corporation (MCC) Threshold Program, managed by USAID. Program implantation began in April 2007 and will run until April 2009. The program includes a \$35 million Control of Corruption component that will address Supreme Court reforms, judicial transparency, anti-money laundering enforcement and prosecution of public corruption cases.

Energy Security and Climate Change

15. (SBU) Indonesia is focused on making the December COP-13 climate change meeting in Bali a success. They are very concerned that the President's Major Economies Initiative - to which they've been invited - may detract from COP-13. The recent visit of the Chairman of the Council on Environmental Quality James Connougon did much to alleviate their concerns. Indonesia hopes to use COP-13 to develop processes to reward "avoided deforestation;" they want to receive compensation for protecting their rainforests.

16. (SBU) Sitting somewhat oddly against their problems with deforestation (they have the fastest rate of deforestation in the world), Indonesia has developed an ambitious five-year, multi-billion dollar investment plan to boost biofuel production, largely through palm oil. You will have the opportunity to discuss climate change and energy security in meetings with the Ministry of Energy and in a roundtable with various energy and environmental experts.

The U.S and ASEAN

17. (SBU) Your visit to ASEAN and meeting with Deputy Secretary General Dammen will help reassure ASEAN officials that we value our relationship. ASEAN officials remain disappointed that President Bush postponed the US-ASEAN Summit, which was to be hosted by Singapore on September 5, 2007 to commemorate 30 years of dialog relations. While our substantive, issue-based engagement remains robust, we have lost momentum in relationship building through "face time." (Note: ASEAN has over 700 meetings per year and neighboring China engages in many more than the U.S. does.) In recent meetings at the ASEAN Secretariat, ASEAN officials have focused on the positive role the US plays in ASEAN in terms of economic cooperation, technical assistance and balancing the influence of China.

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A Visit to Sumatra

18. (SBU) You will also visit Medan, the capital of North Sumatra province. North Sumatra is Indonesia's most religiously diverse region and home to more than three million people. The province is an excellent case study of the impact of the old Java-centric development model in an outer island: despite its strong export performance and contributions, the province's airport, road network, public utilities, and education system lag well behind those of comparable regions of Java. North Sumatra is an important center for finance and agribusiness and, because of the close proximity of Malaysia and Singapore, the business community tends to have closer ties to those countries than they do to Jakarta. Until the 1970s the U.S. was the most important foreign investor in the province, but declining oil production in the early 1980s and falling rubber prices led to a withdrawal of virtually all American business from the region. You will be the highest ranking State Department visitor to Medan in several years (though several, including former Presidents Bush and Clinton, Secretary Rice and Deputy Secretary Zoellick have been to post-tsunami Aceh.)

High-Level Economic Visitors to Indonesia

19. (SBU) Treasury Deputy Assistant Secretary for Asia Robert Dohner visited most recently July 16. (Secretary of Treasury Paulson has been invited to the Finance Ministers side meeting of the Bali UNFCCC COP-13 Climate Change conference December 10-11.) Secretary Rice visited in March 2006 and again in November 2006 with President Bush, during which we signed agreements on multi-hazards warning, customs cooperation, and combating illegal logging. EAP Assistant Secretary Christopher Hill visited in May 2007. While USTR sends

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visitors fairly regularly (most recently Assistant USTR Barbara Weisel in May 2007) we believe we have not had a State Under Secretary for Economic Affairs here since 2002.

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